



**Office of the Washington State Auditor**  
**Pat McCarthy**

## **Fraud Investigation Report**

# **Lake Quinault School District No. 97**

**Grays Harbor County**

**For the Investigation Period August 1, 2008 through  
January 31, 2015**

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**Office of the Washington State Auditor  
Pat McCarthy**

April 27, 2017

Lake Quinault School District No. 97  
Amanda Park, Washington

**Report on Fraud Investigation**

Attached is the official report on a misappropriation at the Lake Quinault School District No. 97. On February 3, 2015, the District notified the State Auditor's Office of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the former Secretary's unallowable activities at the District from August 1, 2008 through January 31, 2015. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

If you are a member of the media and have questions about this report, please contact Assistant Director for Communications Kathleen Cooper at (360) 902-0470. Otherwise, please contact Fraud Manager Sarah Walker at (509) 454 3621.

Pat McCarthy

State Auditor

Olympia, WA

cc: Ms. Michelle Morrison, Business Manager

# **FRAUD INVESTIGATION REPORT**

## **Investigation Summary**

On February 2, 2015, the Chief Financial Officer of Educational Service District 113 notified our Office on behalf of the School District regarding a potential loss of public funds as state law requires.

A report was filed with Grays Harbor County Sheriff's Office on February 19, 2015, and an investigation was opened. The District also investigated with the assistance of Educational Service District (ESD) 113 and determined a credit card misappropriation had occurred at the District. We reviewed the District's investigation and, based on their findings, we initiated our own investigation. Our investigation identified a credit card misappropriation totaling \$118,871 and questionable expenditures totaling \$142,797 occurred at the District between August 2008 and January 2015.

## **Background and Investigation Results**

The District, located in Grays Harbor County, operates on an annual budget of about \$3.2 million and provides educational services to about 170 students in kindergarten through 12th grade. The Lake Quinault School District is governed by an elected, five-member Board of Directors. The Board appoints a Superintendent to oversee the District's daily operations as well as its 20 certificated and 36 classified employees, including an Accounts Payable/ Payroll Secretary (Secretary) who is responsible for managing the District office's daily operations.

The Secretary started with the District as a bus driver in 1977. In 2005, she moved into the Accounts Payable Secretary role. She was then given the additional responsibility of Payroll Secretary in 2010. As the Accounts Payable/Payroll Secretary, she was responsible for completing, submitting, monitoring and closing purchase orders as well as monitoring inventory of all received goods and supplies. The Secretary was also responsible for performing all payroll duties and for safeguarding and monitoring District credit cards and petty cash accounts.

Despite being responsible for making accounts payable and payroll payments, the Secretary's purchasing responsibility was limited to copy machine maintenance and supplies.

On December 12, 2014, the High School Principal requested a copy of the District's credit card statement, because a parent reported the card had been declined when they attempted to make a fundraising purchase. The Principal was given a photocopy of the statement, on which many of the transactions were altered. He requested and received a page of the original statement. He observed a charge to a pet store vendor, which was altered in the photocopy he had received originally. The Principal was not aware of any reason for the District to make a purchase at this vendor, so he asked the Secretary about the charge. The Secretary said she would determine the reason for the charge. She reported that the purchase had been made by a teacher for an

after-school program. The Principal followed up with the teacher, who explained that she had neither made the purchase nor been asked about the purchase by the Secretary. The Principal then contacted the Superintendent and gave him the credit card statement.

The Superintendent agreed the credit card statement included purchases that did not have a District purpose and began to look at credit card statements from other months. During his review, he identified charges on a statement for another credit card that was in the Secretary's name. The Superintendent was aware of the credit card identified as the "authorized user" card, which all employees were allowed to use. He was unaware of the credit card issued in the Secretary's name. The Superintendent contacted the District's bank and discovered that on August 29, 2011, the Secretary requested that a credit card be issued in her name.

The Secretary requested the name on an existing credit card be changed from a former employee's name to her name. She used a stamp with the Superintendent's signature to sign the name change request at the bank. The Secretary did not have permission to use the Superintendent's signature stamp and obtained the credit card without the Superintendent's knowledge or permission.

The Secretary was placed on administrative leave on January 26, 2015, and her employment was terminated on February 18, 2015. The District asked the Education Service District (ESD) 113 to help investigate. The Superintendent worked with ESD staff to identify other questionable purchases made by the former Secretary. The ESD reviewed payroll records, statements for the District's authorized user card as well as for the card in the former Secretary's name, five vendor store charge accounts held by the District, petty cash and online vendor charge account records.

The District and ESD identified questionable credit card and vendor card expenses including purchases of pet supplies, clothing, home improvement items, perfume and vacations.

On February 19, 2015, the District filed a report with the Grays Harbor County Sheriff's Office. On March 11, 2015, the Grays Harbor County Sheriff's Office searched the former Secretary's residence, observing and recovering items that were linked directly to District credit card charges and vendor expenses.

The District provided its files to us, and we investigated, focusing on accounts payable, credit cards and petty cash. We determined the following:

#### Accounts Payable

We reviewed vendors used by the District from January 2013 through December 2015. We evaluated and selected vendors for further review based on our understanding of the District's operations and the former Secretary's responsibilities. We identified \$518 in questionable purchases related to cleaning supplies and hamburger patties. Similar and same brand name

items were located by law enforcement officers during their search of the former Secretary's residence.

### Petty Cash

We analyzed payments made through the District's petty cash account. We identified payments made through petty cash to the District's bank with the memo showing "Visa payment." We reviewed all payments made to the District's bank from January 2011 through January 2015 and identified \$1,489 in payments that were not credited to the District's credit card statements. We consider these questionable payments.

### Credit Cards

We reviewed all credit card transactions from August 2008 through January 2015 and identified a total misappropriation of \$118,871 and an additional questionable purchases totaling \$140,790 on credit cards issued by the following vendors:

<b>Summary of Results</b>		
<b>Credit Card</b>	<b>Total misappropriation</b>	<b>Total questionable expenditures</b>
Former Secretary's card	\$100,343	\$4,999
Authorized user card	\$13,120	\$126,788
Office supply store	\$982	\$9,003
General merchandise store	\$1,335	\$0
Home improvement store	\$3,091	\$0
<b>Total</b>	<b>\$118,871</b>	<b>\$140,790</b>

Our review of the statements for the authorized user card and the card in the former Secretary's name identified purchases that were not for valid business purposes for the District. For example, she purchased about \$10,600 in pet supplies, multiple vacations, clothing, shoes, perfume and cosmetic services.

Our review of the office supply store credit card statements identified non-business related purchases made by the former Secretary, such as a corner TV stand and an office chair.

Our review of the general merchandise store credit card statements identified a purchase of a 60-inch LED HD television totaling \$1,083.

Our review of the home improvement store credit card statements identified the purchase of a 27.7 cubic foot French door refrigerator and protection plan totaling \$3,091. During law

enforcement officers' search of the former Secretary's residence, they identified the refrigerator and television by serial number and took them as evidence.

To determine if any additional misappropriations occurred, we examined systems to which the former Secretary had access. We reviewed payroll, payroll adjustments and accounts payable adjustments, and did not find additional misappropriation or questionable expenditures.

The former Secretary declined our requests for an interview.

## **Control Weaknesses**

Internal controls at the District were not adequate to safeguard public resources. We found the following weaknesses allowed the misappropriation to occur:

- The Board and Superintendent's review of expenditures was not sufficient to ensure all purchases were allowable, for a District purpose and in compliance with District expectation.
- No supporting statements for credit card purchases were provided for review.
- Petty cash disbursements were not reviewed by an independent person.

The District has indicated it has made several internal control improvements related to the areas mentioned above, which we will evaluate during our next audit.

## **Recommendation**

We recommend the District continue to strengthen internal controls over review and approval of credit card charges, vendor card charges and petty cash to ensure adequate oversight and monitoring to safeguard public resources and compliance with District policies. These controls should include an effective review of:

- Expenditures, performed by an independent person, that ensures purchases are allowable, supported, for District purposes and are in compliance with District expectation
- Supporting credit card statements and underlying receipts for all credit card purchases
- Petty cash disbursements, including supporting documents for all charges

We also recommend the District seek recovery of the misappropriated \$118,871, and questionable transactions as appropriate, and related investigation costs of \$13,565.31 from the former Secretary or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the District must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or [matk1@atg.wa.gov](mailto:matk1@atg.wa.gov). The contact for the State Auditor's Office is

Sadie Armijo, Assistant Director of Local Audit, who can be reached at (360) 902-0362 or [Sadie.Armijo@sao.wa.gov](mailto:Sadie.Armijo@sao.wa.gov).

## **District's Response**

*The Lake Quinault School District concurs with the findings for Fraud from the State Auditor. Since the district uncovered the potential fraud it has taken steps to insure internal financial controls were strengthened. First, the district reviews all requisitions and the superintendent must sign off before a purchase order is made. Second, the district has established stronger control of all credit cards, including a policy on use. Staff must sign out and back in any card they will use. Upon turning the card back in they must return all receipts and/or invoices they received. The history of any purchase (requisition, purchase order, invoice, receipts, etc.) are attached to the credit card statement. Third, the petty cash account is reviewed by the Quinault Education Association President every six months to insure the account balances correctly. The president reports her/his findings to the superintendent and business manager.*

*The district hired a new Business Manager who is in her second year of the ESD 113 Business Manager Academy and maintains a close working relationship with the ESD Finance Office. She has undergone two annual audits by the State Auditor Office and has been complimented on her maintenance of financial records. The superintendent also reviews each month all purchases and signs off. In all the district financial controls are stronger and the district is in a better financial condition than January 2015.*

## **State Auditor's Office Remarks**

We thank District officials and personnel for their assistance and cooperation during the investigation. We will review the District's new controls during our next audit.

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